

United States Circuit Court of Appeals

FOR THE NINTH CIRCUIT

FORD MOTOR COMPANY, a corporation,

Plaintiff and Appellant,

vs.

BENJAMIN E. BOONE, INC., a corporation, BENJAMIN E. BOONE, and BENJAMIN E. BOONE, INC., a corporation, D. R. BOONE and NORA CARLYLE, a co-partnership, doing business, as Benjamin E. Boone & Co.,

Defendants and Appellees.

PETITION FOR REHEARING.

Upon Appeal from the United States District
Court for the District of Oregon.

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PETITION FOR REHEARING.

Rehearing should be had in this case for the reason that we believe it plain that the court has proceeded upon a misapprehension, first—as to the nature of the case, and, second—that it has enumerated a doctrine of law which finds no support other than opinions of courts which have been expressly overruled by the Supreme Court of the United States.

The case may be divided into two branches: first, those allegations wherein it is alleged that by the use of various signs the defendant partnership claims to be the agent of the plaintiff corporation; and, second, the allegations that the defendant partnership is inducing the agents or sub-dealers of the plaintiff corporation to violate their contracts.

Inasmuch as this is an action for injunctive relief and not an action for damages by reason of acts done, it would appear that where the plead-

ings affirmatively show that the defendant partnership either has not or is not continuing in the practices complained of, that no ground for injunction lies. The pleading of a party, when contested by demurrer, must be most strongly construed against it. Surely if he bases his cause of action or suit upon an allegation that a certain state of facts exists, and then later on in his pleading specifically alleges that they do not exist, this contradiction destroys his cause of action. The plaintiff complains that, unless restrained by the court, the defendants will continue to mislead the public into the belief that they are authorized Ford agents of plaintiff. (See paragraph 14 of Bill of Complaint.) It appears, however, that subsequent to the institution of plaintiff-appellant's suit, the defendant partnership caused to be inserted in the Portland "Oregonian" and the "Oregon Journal" an advertisement notifying the public generally that it was not an agent of the Ford Motor Company. (See Subdivision "F," paragraph 15 of amended and supplementary complaint, and Exhibit "D.") This exhibit, made a part of their complaint, is a direct contradiction of their allegation that the defendant partnership threatens to and will continue to hold out to the public that it is agent of the Ford Motor Company.

The facts of the case are that up to February 1, 1916, the defendant partnership was a distributor in the City of Portland for the plaintiff corporation; that the word "Ford" painted upon the side of the building was painted there during the time that the defendants were such distributors, and that the defendants were merely selling out

the cans of oil with the labels objected to which had been taken in stock during the period of time when they were such distributors, and the same thing is true with reference to the advertisement in the telephone directory. It is, therefore, apparent that whatever might have been true at the time the supplemental Bill was filed, the defendant partnership had entirely ceased the conduct complained of and had notified the public through public advertisement that it was not an agent of the Ford Motor Company. This phase of the case is, therefore, of little importance and was not deemed such by either party in the court below.

The court has at great length attempted to justify its decision to hold the agency contract a valid contract. An analysis of the opinion indicates that the court justifies its decision upon the ground that the 85% of the retail purchase price is not the entire consideration which the Ford Motor Company receives by reason of the contract. These other considerations the court does not specifically state, but it is quite evident that they cannot consist in other than the observance of the territorial restriction, the price restriction, and the maintenance of repair shop. The fact that these distributors of their own volition do not observe either the territorial or price restrictions in no way affects their ability or their obligation to maintain a repair shop and to furnish this service to which the court calls attention. It is also obvious that they would not sell for less than the retail price to anyone unless it was profitable for them to do so. The court assumes (an assumption, by the way, entirely out of the record) that the purchaser desires the assurance that the ar-

title he purchases is standard; that it has the maker's guarantee that he will be able to procure parts and accessories as he may need them, and, of course, that no question will be raised touching his title. The court says: "*Obviously* the defendant could not give a prospective purchaser all of these assurances." The obviousness of the matter is, we think, entirely open to question. How does the court know that the assurance of Boone & Company that the article is standard and that it has the maker's guarantee is worthless? What right has the court to say that the purchaser cannot obtain parts and accessories, as he wants them, from Boone & Company? What right has the court to question the title of the defendants to these cars more than it has the right to question the title of the plaintiff to the cars? What does the court know, as a court, of the financial standing of either party and of their respective abilities and willingness to comply with their contracts? Is there anything in the pleadings or in the contract to indicate that the purchaser obtains either assurance or security from a purchase through a regular agency?

Again the court says: "The defendants used plaintiff's trade-mark after the manner of a regular Ford agency." There is no such allegation in the complaint, and it is not the fact. It is not alleged that the word "Ford," or "Fords," appearing upon defendants' building, was in anywise similar to or the same as plaintiff's trade-mark, the script "Ford."

The court says: "It is clearly the understanding of the parties that it is a conditional, restricted

sale and that the title passes only upon the compliance with the other conditions, as well as that of paying the 85%." What are those conditions? Are there any other conditions than that the car shall have been sold to an ultimate user, at the price fixed by the company, within the territory allotted the agency? *These other matters—of advertising, rent, taxes, and repair shops, are not the conditions which must be met before title passes,* and it is nowhere claimed in the contract that such is the case.

The court admits that if this were an unpatented article the scheme of selling referred to would be an illegal one, and illegal for two reasons: first, that it is an attempt of the vendor to control the re-sale price of the article; and, second, that inasmuch as the plaintiff corporation attempts by its restrictions to restrain interstate commerce, it is violating the Federal laws touching that subject. The court says in its opinion, in effect, that inasmuch as there are other automobiles in the market it cannot be said that the plaintiff corporation has a monopoly over automobiles and, therefore, distinguishes the case at bar from the case of Motion Picture Company vs. Universal Film Manufacturing Company, where the device was an essential one for the operation of moving picture machines. That the distinction is not a true one is apparent from the fact that the same doctrine of law applied to the motion picture patents case was applied to the Victor Talking Machine case. Surely it cannot be contended that the talking machine made by the Victor Talking Machine Company is the only talking machine on the market and that it is not subject to competition. It is a

matter of common knowledge that there are at least fifteen or twenty other varieties of talking machines upon the market—in fact, the Victor Talking Machine Company has a rival of practically the same strength in the Edison Phonograph Company.

To say that the Ford automobile is in competition with a Packard, a Pierce-Arrow, a Hal-12, a Chalmers, a Cadillac, or a Mercedes—cars costing from three to ten times as much, is to say that a cayuse pony worth \$50.00 competes with a \$25,000 race horse.

We believe the court labors under misapprehensions as to the meaning of the statement found in the Victor Talking Machine case. The court says:

“In the Victor Talking Machine case, *supra*, the court (referring to the Supreme Court of the United States) said: ‘The abstract of the bill which we have given makes it plain that whatever rights the plaintiff has against the defendants must be derived from the ‘License Notice’ attached to each machine, for no contract rights existed between them.’ ”

The mistake under which we believe this court has labored is a total misapprehension of the facts as shown in the Victor Talking Machine case.

This court has assumed that the only question there involved was whether or not a patentee could by a license notice limit the use to which a ma-

chine could be put on the price or royalty which the "distributor" should receive for an assignment of that license to an "ultimate user."

The court further assumes (opinion, page 14) that there was not involved in the case any question of a contract between the manufacturing patentee and his distributors. Such, however, is not the case. The first two pages of the Supreme Court's decision is taken by a recital of the Victor Talking Machine Company's method of conducting its business.

We quote from the decision:

"The plaintiff in its bill alleges: * * * that for the purpose of marketing these machines to the best advantage about August 1, 1913, *it adopted a form of contract which it calls a 'license contract,' and a form of notice called a 'License Notice,' under which it alleges all of its machines, have since that date been furnished to dealers and to the public.*

"This 'License Notice' which is attached to each machine and is set out in full in the bill, declares that the machine to which it is attached is manufactured under patents, is licensed for the term of the patent under which it is licensed having the longest time to run, and may be used only with sound records, sound boxes, and needles manufactured by the plaintiff; that only the right to use the machine 'for demonstrating purposes' is granted to 'distributors' (wholesale dealers), but that these 'distributors' may assign a like right to the 'public' or to 'regularly licensed Victor dealers'

(retailers) 'at the dealer's regular discount royalty'; that the 'dealers' may convey the 'license to use the machine' only when a 'royalty' of not less than \$200 shall have been paid, and upon the 'consideration' that all of the conditions of the 'license' shall have been observed; that the title to the machine shall remain in the plaintiff which shall have the right to repossess it upon breach of any of the conditions of the notice, by paying to the user the amount paid by him less five per cent for each year that the machine has been used. * * *

"The contract between the plaintiff and its dealers is not set out in full in the bill, but it is alleged that since August 1st, 1913, *the plaintiff has had with each of its 7,000 licensed dealers a written contract in which all the terms of the 'License Notice' are in substance repeated and in addition* it is alleged that each dealer 'if he has signed the assent thereto' is authorized to dispose of any machines received from the plaintiff directly or through a paramount distributing 'dealer,' but subject to all of the conditions expressed in the 'License Notice.' It is alleged that this contract contains the provision that 'a breach of any of the conditions on the part of a distributor will render him liable, not only for an infringement of the patent, but to an action on the contract or other proper remedy.'"

After reading that language how can this court say that there was not involved in the Talking Machine Company case anything more than the 'License Notice' theory.

In that case the company specifically reserved

title in itself for a long period of years; having the right to use and vend its patented machine, it deemed it had the right to vend not the title to its machine but only the right to use it under certain conditions.

The Victor Talking Machine Company doubtless had in mind the same "considerations" which under such a system of marketing would accrue to it, as this court has so ably delineated in its opinion, to-wit: that the purchaser "desires the assurance that the article he purchases is standard, that it has the maker's guarantee, that he will be able to procure parts and accessories as he may need them, and, of course, that no question will be raised touching his title."

The Victor Talking Machine Company doubtless felt of the same opinion as this court that "it may decline to deal with the trade at all, and, dispensing with middlemen, sell directly to users, by mail, or through traveling salesmen or local agents. Accordingly it may lawfully appoint an agent authorized to sell its cars (talking machines), limiting his authority to sales within a prescribed territory, and to users, and for a fixed price; and it may impose as one of the conditions of sale that it will not pass title except to the ultimate user and after such price has been paid in full."

Undoubtedly the Victor Talking Machine Company was of the opinion that even though its contract might be construed as effecting a sale, yet, as this court says:

"It is clearly the understanding of the parties that it is a conditional or restricted sale, and that the title to the cars (talking machines) passes only upon a compliance with the other conditions as well as that of paying the eighty-five per cent (there a royalty of \$200)."

We can go even further without in the least straining our analogy. We doubt not that these manufacturers deluded themselves as to their own real objects by making use of language quite similar to that used by this court:

"But were it otherwise, what benefit would result to the public by opening the door for the bushwhacking competition which, and which only, is likely to follow? It is to be borne in mind that the plaintiff (Victor Talking Machine Co) has no monopoly of the automobile (phonograph) business, but only of one out of almost innumerable kinds of cars (phonographs), all differing in detail one from the other, but of the same general type and all designed to be used in the same general manner, and for the same general purpose."

Is there any point of distinction between the product of the Ford Motor Company and that of the Victor Talking Machine, so far as competition and necessity to the public are concerned? The Victor talking machine has many rivals, one of them, Edison's Columbia Phonograph, of almost equal commercial strength and of practically the same popularity with the public. In fact so great is the competition that the Patent Office maintains a division of examiners whose sole work is the examination of patents to phonographs and

talking machines.

Nor can the musical sense of the American people be said to have become so far developed that a phonograph has become a necessity. If, as has been said, a "necessity" is that which we think we must have, I doubt not that the average American family when called upon to choose between its car and its Victrola, would unhesitatingly pass by the "music box" and award the crown to the automobile.

There is nothing that the court says in its opinion that could not with equal justice and propriety be said of the Victor Talking Machine Company.

Another error into which the court fell, will, we have no doubt, be apparent when the court re-examines the Talking Machine case.

The Supreme Court said:

"As to the defendants, the bill alleges that they conduct a large mercantile business in New York City; *that with full knowledge of the terms of the contract, as described, between the plaintiff and its distributors, and of the 'License Notice' attached to each machine the defendants 'being members of the general unlicensed public' and having no contract relation with the plaintiff, or with any of its licensed distributors or licensed dealers, induced 'covertly and on various pretenses,' one or more of plaintiff's licensed distributors or dealers to violate his or their contracts with the plaintiff,* providing that no machines should be delivered

to any unlicensed member of the general public until the full license price stated in the 'License Notice' affixed to each machine was paid, and thereby obtained possession of a large number of such machines at much less than the prices stated in the 'License Notice'; *that under the terms of the said license AGREEMENT and notice*, they have no title to the same, and that they have sold large numbers thereof to the public and are proposing and threatening to dispose of the remainder of those which they have acquired to the 'unlicensed general public,' at much less than the price stated in the notice affixed to each machine."

It is thus apparent that the Victor Talking Machine were not claiming alone under a license notice. They allege a contract, they allege that the defendant Straus had knowledge of the contract, and that he had induced the distributors to that contract to violate the same and dispose of their machines to him at less than the price fixed in their contract.

It is on identical facts that the plaintiff in the case at bar seeks to gain injunctive relief—facts which, though insufficient in the mind of the Supreme Court of the United States, seem to have been sufficient in the mind of Your Honors.

This court has taken the position that in the Victor Talking Machine case, the question before the court was whether or not a license notice system of doing business was valid. Again, we respectfully submit, Your Honors have misconceived the scope of that decision.

Mr. Justice Clarke, on that point says:

“It is apparent from the foregoing statement that we are called upon to determine whether the system adopted by the plaintiff was selected as a means of securing to the owner of the patent that exclusive right to use its invention which it granted through the patent law, or, whether, under color of such a purpose, it is a device unlawfully resorted to in an effort to profitably extend the scope of its patent at the expense of the general public.”

In fact we have found no case where the Supreme Court has ever held that a license notice is of no avail when it is used in a bona fide attempt to retain in the patentee the exclusive right to manufacture, vend, or use its product. It has only been where such a notice has been a part of a mere price fixing scheme—where it is sought to fix retail prices after the patentee has received his price, that the Supreme Court has held them invalid.

Had the transactions of the Victor company been such as to impress the Supreme Court that the *contract* between the company and its “Distributors” was in good faith, a conveyance of only a right to use, and not a scheme to disguise a sale under the form of a “license to use,” the court would have been compelled to sustain the plaintiff’s bill of complaint.

Had they considered a true “license,” then the Supreme Court would have held that the distributor did not receive full title to the machine, and

not having received title he could not convey it to the Straus concern; if the Straus concern were informed or put on guard by any instrumentality, whether by word of mouth, recording of the license, or by a notice placed upon the machine itself—then that concern got no better title than the “distributor” whom it had tempted to break its contract with the patentee—and the Victor Talking Machine Company would have had a perfect cause of suit for injunction, accounting and decree for damages.

But the court properly held that the recitations in this Notice were untrue, that the conditions there were a mere blind, that the title which the “Distributor” received from the patentee was not conditional; that the transaction was a sale; and, finally, that being a sale the attempt to fix the retail price or “royalty” conflicted NOT with the anti-trust law, but with the old doctrine of the common law that restraints upon alienation are odious and will not be upheld.

We have read with interest Judge Dietrich’s views upon the advisability of stifling competition among retailers, and the benefits which accrue to the public in permitting a manufacturer to dictate not only what he shall receive for his product but also what the general public shall pay for it. The doctrine so announced, if sound, applies as well to unpatented as to patented articles. In fact the evil of “bushwhacking competition,” to use Judge Dietrich’s trenchant language, is more apparent and more odious in the case of the manufacturer who has borne the burden of long and expensive advertising and selling campaigns to establish his

market for an unpatented product than in the case of the patentee who at least has a monopoly in the manufacture of his product, and who has a statutory grant to dictate what he will receive for his product.

The doctrine this court has annunciated is the law of Germany, the arguments advanced in its favor by Judge Dietrich have been the arguments offered in support of the Stephens Bill, so often proposed to Congress, but the Congress has consistently declined to adopt such a policy as the economic policy of the United States.

The question is a political one, and until such time as that branch of the government having jurisdiction over such questions of policy sees fit to change it, we submit that the court cannot properly concern itself with its expediency.

This is the view of the Supreme Court, which sweeps aside argument on the question by these words:

“The object of the notice is said to be to effectually maintain prices and to prevent ruinous competition by the cutting of prices in sales of the patented article. **THAT SUCH PURPOSE COULD NOT BE ACCOMPLISHED BY AGREEMENTS CONCERNING ARTICLES NOT PROTECTED BY THE PATENT MONOPOLY WAS SETTLED BY THIS COURT IN THE CASE OF DR. MILES MEDICAL CO. VS. PARK & SONS CO., 220 U. S. 373,** in which it was held that an attempt to thus fix the price of an article of gen-

eral use would be against public policy and void. It was doubtless within the power of Congress to confer the right of restriction upon a patentee. **HAS IT DONE SO?** *The question has not been determined in any previous case in this case so far as we are aware. * * **

In other words, the question before the court is whether or not the exclusive right to "vend," given by the patent statute, includes the right, by contract or otherwise, to fix the re-sale price. The Supreme Court in the case of *Bauer vs. O'Donnell* quoted with approval the language of *Adams vs. Burke*, 17 Wallace 453:

"* * * when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

The court, therefore, answers in the negative the question which he put and which we have quoted.

The court cites the case of *United States vs. Keystone Watch Company*, 218 Fed. 502-514, a case based, as the citation shows, upon *Henry vs.*

Dick Co., 224 U. S. 1, and Bement vs. National Harrow Co., 186 U. S. 70. The Supreme Court, in Bauer vs. O'Donnell, *supra*, held specifically that Bement vs. National Harrow Company did not involve the question of the right under the patent law, and the Supreme Court, in Straus vs. Victor Talking Machine Company, specifically overrules Henry vs. Dick, but this court has entirely overlooked and neglected in its decision Straus vs. American Publishing Association, 231 U. S. 222, a case which involved directly the question of contracts and not the question of notice, and dismisses it in its opinion with the statement that the question there was merely a question of conspiracy covering a patented article. Surely if a contract as to one copyrighted book is legal, the publishers would have a right to make a similar contract with every copyrighted book they had. If the Ford Motor Company were manufacturing, under Letters Patent, 85% of the different kinds of motor cars made in the United States, their right to fix the retail price certainly would not be limited by reason of the fact that they owned more than one patent. What they could do with one patent they could do with another. If the court's contention is correct, the more ingenious a man is, the more fertile his brain, the more cunning his mechanical senses, the more is he handicapped under our laws. If he has only enough genius to produce one invention, he may fix the retail price; if he be a genius like Edison and is responsible for a hundred—he is prohibited from so doing. If there were but one copyrighted book those publishers, according to this court's construction of the law, would have the right to enter into a con-

tract; if they had entered into a thousand different contracts among themselves, each covering but one book, then their scheme would not have been subject to attack. Surely that cannot be the law. What may be done in a series of contracts may be done in one contract. The fact still remains that the basis of all these decisions is that a patent or copyright proprietor who has received the full price for his machine cannot control the re-sale price.

In conclusion, we beg from the court a further consideration of this case. We have attacked the court's decision and conclusions with a temerity that may perhaps be charged to youth and inexperience, but we are convinced that the decision as rendered is erroneous and that it should be modified and a rehearing had.

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